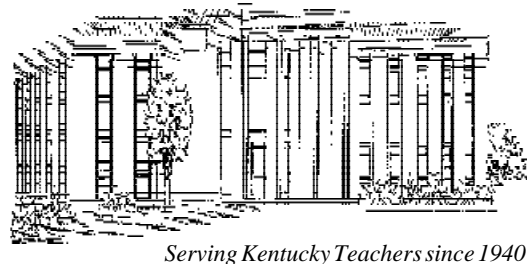

Important Legislation
HB 434

◆
SGHP for 2005
Information for
Retirees
Under Age 65:

◆
Earl V. Powell Retires
from KTRS Board

Kentucky Teachers' Retirement System

MEMBER SPECIAL MAILING
FEBRUARY 2004



Important Legislation House Bill 434

The legislative agenda of the Teachers' Retirement System for the 2004 General Assembly has two primary purposes: Improve the funding formula for the medical insurance fund and provide cost of living adjustments for retired teachers. This important agenda is contained in House Bill 434, which is sponsored by Representative Frank Rasche, Chairman of the House Education Committee. The bill was introduced in the House Education Committee on February 4th, and it passed out of that committee on February 11th. House Bill 434 has been subsequently assigned to the Appropriations and Revenue Committee in the House.

As was reported in the October 2003 and the January 2004 newsletters, the main focus of the legislative proposal for the 2004 General Assembly is the establishment of a funding formula that will provide long-term support for the KTRS medical insurance program. Copies of previous newsletters sent to the membership are available on the System's web site at www.ktrs.ky.gov.

The medical insurance provided to retired educators is funded on a pay-as-you-go basis. Despite dramatic changes in health care services and their ballooning costs over the last 18 years, the funding formula has not been adjusted since 1986. House Bill 434 would add a component to the medical funding formula that would sustain the medical insurance program for the foreseeable future.

The current law provides that "The Board of Trustees shall determine the amount of health insurance supplement that the Teachers' Retirement System will provide to assist eligible annuitants in paying the cost of their health insurance, based on the funds available in the medical insurance fund." In other words, the health insurance benefit for retirees is a special program that is dependent upon sufficient funding in order to be sustained at existing benefit levels.

Sufficient reserves currently are in the Medical Insurance Fund to support a pay-as-you-go program for two more years, through fiscal year 2005-06. KTRS has made the Governor and the General Assembly aware of the actuarially recommended funding that would provide long-term support of the medical benefit beginning with current budget period as well as the increased obligation that will have to be faced in the next biennium, if the current budget does not fund the medical program as requested in House Bill 434.

House Bill 434 adds to the statutes the needed language to support future funding of the KTRS medical program. This legislation is important to all current retirees receiving medical benefits and to those

active members who expect medical coverage in their retirement years.

KTRS has also requested funding to provide ad hoc COLAs of .8% and .7% for retirees. The base annual COLA of 1.5% is already funded. Funding for these ad hoc COLA's was not included in the current Executive Budget, but KTRS will continue its efforts to obtain funding for these COLAs.

NECESSARY FUNDING FOR THE RETIREMENT SYSTEM

The Retirement System has received calls from members concerned that the Executive Budget did not include the necessary funding for the Retirement System. Most of the required funding for the Retirement System was contained in the Executive Budget presented by Governor Fletcher on January 27, 2004.

Included for the biennium were the funds necessary to match active member contributions. The Executive Budget also provides funding necessary in the biennium to amortize prior year ad hoc cost of living adjustments (COLAs), minimum benefit adjustments, and funds the liability associated with payments to retiring teachers for accumulated sick leave balances.

There was, however, a shortfall from the previous budget period in the state's match of employee contributions totaling \$19 million. KRS 161.550 requires that this shortfall be funded in the subsequent biennium; however, the Executive Budget, as introduced, contains language temporarily suspending the statute. The Executive Budget provides an initial payment of \$9 million, leaving the remaining \$10 million to be funded in a later budget. It is important to receive the remainder of the employer obligation from previous years. The Retirement System has requested a commitment from the administration to fund the remainder of this shortfall.

State Group Health Plan for 2005 Information for Retirees Under age 65:

You probably have seen in the news that the Governor has proposed changes in health care coverage for state employees, active teachers, and others effective January 2005. Not much is known at this time, but we wanted to inform members under age 65 that there are likely to be changes in their coverage for Plan Year 2005. KTRS retirees under age 65 have received their coverage from the State Group Health Plan since 1997, when the costs to secure coverage elsewhere were prohibitive. Retired

state employees participate in this group too. Further details will be shared when they are known.

Changes discussed thus far include cost shifting measures such as the member or full-time employee sharing premium costs using a means-based formula. Also discussed are increased deductibles, varying co-pays, and different coinsurance percentages. The changes, if implemented, would shift some out-of-pocket costs to those utilizing the coverage. In addition, the Commonwealth's contribution to individual Flexible Spending Accounts (FSAs) for active teachers waiving coverage, is predicted to be reduced by 57%. Retirees by federal law cannot participate in FSAs, therefore, such a move would not impact retirees. Lastly, new programs are expected to promote wellness and educational initiatives as well as preventative care incentives designed to save on spiraling health care costs for both the plan participants and the Commonwealth.

EARLE V. POWELL
Retires From
KTRS Board of Trustees

Citing chronic health problems that could limit his effectiveness as a Trustee, Earle V. Powell has resigned from the Board of the Teachers' Retirement System. Mr. Powell has had a distinguished career in both the private and public sectors in addition to serving in an exemplary fashion as a Trustee on the KTRS Board.

Mr. Powell was first elected to the Board in 1986. He has been on the Investment Committee since 1987. During his tenure on the Board, the System's assets have grown by billions of dollars, and its benefits have been expanded. The financial soundness of the System has improved dramatically since his first election in 1986.

Mr. Powell served as Chairman of the Investment Committee since the early 1990s. During his tenure, the investment program of the System realized unprecedented success. Over the last fifteen years, the System's annualized return on all assets approximated 9.7%. The fifteen-year annualized return on the System's stocks was 12.8%. Mr. Powell also has been helpful in establishing policies regarding the retiree health insurance program.

For over twenty years, Mr. Powell was President of Citizens Security Insurance Company. In that capacity, he worked regularly with investments, actuary tables,

and insurance benefits. Mr. Powell served the State of Kentucky as Commissioner of Economic Security as well as Assistant Attorney General, and a member of the Public Service Commission.

Mr. Powell was most recently elected to the Board of Trustees two years ago in 2002. His term is scheduled to end in 2006. The Board will select an individual to fill out the remaining two years of his term.

Mr. Powell earned his bachelor's degree from Berea College and his law degree from the University of Louisville. His early years were spent in Pike County. The System's trustees and staff will miss his valuable insights and contributions to the retirement program.

BOARD STRUCTURE

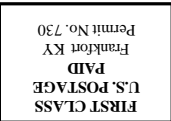
The Teachers' Retirement System is governed by a nine member Board of Trustees. Two members of the Board are ex-officio members, the Chief State School Officer and the State Treasurer. The remaining seven trustees are elected by the combined retired and active membership. Two of the seven elected trustees are identified as "lay members" who are not members of the System. One Board member is a retired teacher, and the other four Board members are active members, of which one is customarily an administrator. The seat recently vacated by Mr. Earle Powell was one of the two lay positions. Since the terms of Trustees are staggered, there is a Trustee election each May. Mr. Powell's term is scheduled to expire in 2006. By statute, the Board will select an interim replacement.

SOLICITATION OF NOMINEES

With the unexpected retirement of Mr. Earle Powell from the KTRS Board of Trustees, the remaining Board members will select an individual to complete the two years on Mr. Powell's term. Members who know of an individual who would make a sound interim Board member and be worthy of consideration by the Board should forward their proposals to the Retirement System. Experience in one or more of the following areas would be helpful: finance, fiduciary duties, investments, and retirement plans. The names should be sent to:

Chairman of the Nominating Committee
Kentucky Teachers' Retirement System
479 Versailles Road
Frankfort, Ky. 40601

Suggested candidates for the interim appointment should be received by the Retirement System by March 8, 2004.



TEACHERS' RETIREMENT SYSTEM
OF THE STATE OF KENTUCKY
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Frankfort, Kentucky 40601-3800